

EXECUTIVE SECRETARIAT
Routing Slip

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
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9	Chm/NIC				
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13	D/EE0				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
20	NIO/ECOV		✓		
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		SUSPENSE _____ Date			

Remarks:

3637 (10-81)

Executive Secretary
6/28/82
Date

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THE WHITE HOUSE
WASHINGTON

Executive Registry

12-3-82

CABINET AFFAIRS STAFFING MEMORANDUM DDI- 5293-82

DATE: 6/25/82 NUMBER: 077341CA DUE BY: ---

SUBJECT: CABINET COUNCIL ON ECONOMIC AFFAIRS -- June 29 Meeting

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Mike Wheeler	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Larry Kudlow	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: The Cabinet Council on Economic Affairs will meet on Tuesday, June 29, at 8:45 AM in the Roosevelt Room. The agenda and background papers for items #1 and #3 are attached. The paper for agenda item #2 was circulated to you on June 22 (077331CA).

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs

☒ Becky Norton Dunlop
Director, Office of
Cabinet Affairs

Jun 23 6 51 AM '82

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THE WHITE HOUSE

WASHINGTON

June 25, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*
SUBJECT: Agenda and Papers for the June 29 Meeting

The agenda and papers for the Tuesday, June 29 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The first agenda item is a review of thrift industry developments. A paper from Roger W. Mehle, chairman of the Thrift Industry Working Group, updating developments in the thrift industry since he last reported to the Council on April 23 is attached.

The second agenda item is a review of global negotiations. A paper from William Clark, Assistant to the President for National Security Affairs, on this issue was distributed to Council members on June 22.

The third agenda item is a report on the export credit financing negotiations. A paper, prepared by the Department of the Treasury, on the current status of an International Arrangement on Export Credits, is also attached.

Attachments

THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

June 29, 1982

8:45 a.m.

Roosevelt Room

AGENDA

1. Thrift Industry Developments (CM#34)
2. Global Negotiations (CM#266)
3. Export Credit Financing Negotiations (CM#267)



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

June 29, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: Roger *Rosen*

SUBJECT: Review of Thrift Industry Developments

Thrift Industry Legislation

In an April 24 Cabinet meeting with the President, Secretary Regan, on behalf of the CCEA, recommended a new package of legislation to aid the thrift industry. It included (1) an income capital certificate program to bolster the declining net worth of thrift institutions and give them breathing room from worse financial problems while interest rates are excessively high, (2) authorization for the depository institution regulators to approve interstate and interindustry mergers of troubled institutions that cannot be rescued, (3) and an expansion of thrift institution asset and liability powers to deal with the industry's long-term structural problems.

Legislation to these ends is awaiting mark-up in the Senate Banking Committee. The proposals are complex and cover a wide variety of subjects, many of which are very controversial to one or more industry groups. Members of Congress need time to sort out their positions on the legislation while they are actively engaged in the tax and budget debates and looking ahead to re-election in November. Nonetheless, we expect this mark-up will take place next month and that some legislation will be enacted shortly thereafter. We are primarily concerned that it include provisions to restructure the thrift industry long term and not just provide temporary financial assistance. We do not want it to leave thrift problems similar to those at present to be revisited in the next high interest rate environment. At the moment the prospects are favorable for some structural provisions being included in the legislation.

The House Banking Committee has not dealt with the subject of expanded thrift powers yet but the full House has already passed financial assistance and merger legislation, and it is our expectation that in a House/Senate conference restructuring provisions can be added to any compromise bill. We oppose

- 2 -

certain features of the House passed thrift industry financial assistance legislation but the basic concept of their bill is the same as that of the Senate bill which we are supporting. Hence, we believe a compromise on assistance legislation should be possible also.

Thrift Industry Statistics

In the first five months of this year, savings and loan association (S&L) deposits, after interest credits, increased \$9 billion or 1.8 percent, while mutual savings bank (MSB) deposits increased \$800 million or less than one percent. There were continued withdrawals from passbook and below market rate accounts but deposits in accounts with market or near market rates continued to increase, especially the 2-1/2 year small saver certificate. Preliminary figures show that the new 91-day, \$7,500 minimum denomination account established by the Depository Institutions Deregulation Committee (DIDC) effective May 1 has generated about \$1.5 billion of deposits at S&Ls. Figures for MSBs are not yet available.

Assets at S&Ls grew by less than one percent during the first five months of 1982, while those of MSBs declined slightly. The net worth of S&Ls has declined another 10.5 percent this year to date and that of MSBs five percent. The continuation of extraordinarily high interest rates for much longer than anyone anticipated is taking its toll on industry earnings and net worth. Our financial assistance legislation should alleviate much of the risk to the viability of individual, well-managed, thrift institutions associated with declining net worth and thereby reduce some of the anxiety in the industry about increased thrift failures/mergers.

During the first quarter this year 21 S&Ls were merged in transactions involving Federal Savings and Loan Insurance Corporation (FSLIC) assistance. However, insurance premiums and income on investments were sufficient to raise the FSLIC fund balance to \$6.6 billion at the end of May, as compared to \$6.3 billion at the end of 1981, a gain similar to that for the full year 1981. The Federal Deposit Insurance Corporation (FDIC) handled six MSB mergers, nine MSB asset purchases and two MSB liquidations in the first five months of 1982. The FDIC fund balance at the end of May was \$12.2 billion, approximately the same as at the end of 1981.

Pending DIDC Action

This afternoon the DIDC will be considering another shorter term deposit instrument, one with a maturity closer to seven days as opposed to the 91-day account initiated on May 1. Many

- 3 -

depository institutions would like an account that provides their customers with a market interest rate and liquidity for their savings comparable to that available at money market funds. However, the DIDC is concerned about creating an account that could draw heavily from existing low rate passbook deposits in thrift institutions before the thrifts have expanded asset powers enabling them to increase their earnings and pay for higher cost funds. DIDC action on such an instrument is therefore influenced by the prospects for the legislation pending in Congress to expand thrift asset powers.



CM# 267

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

JUN 25 1982

MEMORANDUM FOR CABINET COUNCIL ON ECONOMIC AFFAIRS

From: Acting Assistant Secretary Leddy *VL*

Subject: Briefing on International Arrangement on Export Credits

Current Status

The Arrangement is currently in a state of suspense. At their June 23 meeting the EC Economic and Financial Ministers were unable to reach a decision regarding the Arrangement Chairman's (Axel Wallen of Sweden) final compromise proposal on export credits (see highlights at page 3). They notified the Chairman that their decision will be reported on June 30, five days after the agreed deadline. The EC negotiator tells us that France (the main obstacle within the EC) is likely to accept the proposal, but first wants to raise the issue as one of a series of U.S.-EC trade problems at the EC European Council (Heads of State) meeting on June 28-29.

U.S. Position: June 25-30

- Avoid interpreting publicly whether this delayed EC response constitutes acceptance or rejection of the compromise or even the Arrangement itself, since this issue is ridden with technical and practical inconsistencies. Otherwise, we may back ourselves into a position that could limit the flexibility of our response when the EC decision is finally taken.
- Firmly reject any further dilution of the compromise proposal. It would do nothing for EC relations. Germany and all other EC members except France agreed that we should tighten export credits more than this. France is isolated on this issue within the Community. We have bent over backwards for France and should bend no further. To do so would constitute a loss both tactically and substantively.

- 2 -

-- We have compromised with the French on their desire to maintain heavy export credit subsidies to the point that any further compromise would (1) assure them that they have us on the run, and (2) undermine our efforts and cause our Congress and private sector to declare the Administration's efforts a complete failure.

-- We have done enough for the EC (France) already.
We have:

(1) Agreed to a single subsidized rate of interest for all currencies, while still striving for market rates differentiated by currencies;

(2) Agreed to an increased spread of interest rate concessionality for favored countries, while arguing for elimination of concessionality for this type of commercial export credits;

(3) Consented to much lower rates of interest (10.5-11.0 percent) than we and all 22 other creditor countries had agreed to (11.5-11.6 percent) except the French. While this concession seems small, it is not; these credits have 7-10 year terms and cost the Eximbank over 12-13 percent each (borrowing costs);

(4) Agreed to a six-month-to-one-year delay -- on the insistence of the French -- in increasing these interest rates for the countries in which we are competing most strongly, e.g., Brazil, Korea, Mexico.

Highlights of the Chairman's Final Proposal

°Classification of Borrowing Country	<u>Proposed Interest Rates (Current Rates)</u>		
	<u>2-5 Years</u>	<u>5-8.5 Years</u>	<u>8.5-10 Years</u>
I. Relatively Rich GNP/capita of \$4000 and over	12.15%(11%)	12.4%(11.25%)	No Credits

- 3 -

°Classification of Borrowing Country	<u>Proposed Interest Rates (Current Rates)</u>		
	<u>2-5 Years</u>	<u>5-8.5 Years</u>	<u>8.5-10 Years</u>
IIa. Newly Graduated Countries from III to II			
effective immediately:	10.5%(10%)	10.75%(10%)	10.75%(10%)
effective 1/1/83:	10.85%	11.35%	11.35%
IIb. Intermediate All other countries	10.85%(10.5%)	11.35(11%)	No Credits
III. Relatively Poor IDA/IBRD-eligible borrowers	- u n c h a n g e d a t 1 0 % -		

- ° Officially supported export credits in low interest rate currencies would have to carry a blended rate of at least 30 basis points above the domestic commercial lending rate of that currency. In essence this means Japan will have to charge 0.3 percent over its Long Term Prime Rate (its market rate).
- ° Participants would be permitted to derogate from the Arrangement, with prior notification, until December 31, 1982. At that point, mixed credits with grant elements of 20 percent or less would also be banned from the system. After that date, Participants would agree not to derogate. Translated, this means that until January 1, 1983, the United States may continue to lend at terms in excess of ten years if it wishes. This way Eximbank can stretch its budget (by offering a smaller loan) and avoid large losses (by charging a higher interest rate) when matching foreign official credit competition at Arrangement rates and terms.